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IN THE

Supreme Court of the United States

October Term, 1949

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,

Petitioner,

against

HAZELTINE RESEARCH, INC.,

Respondent.

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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I. Introduction.

This is an action brought by Respondent against Petitioner to collect delinquent royalties under a simple, non-exclusive patent License Agreement between the parties (R. 5-41). Petitioner is a manufacturer of radio and television receivers located in Boston, Massachusetts. Respondent is not a manufacturer but operates a laboratory in Chicago, Illinois, engaged in research and development work in the radio and television field. The Agreement in issue contains no restrictive provisions whatever—there is no price fixing; there is no limitation upon production; there is no tying in of sales of unpatented commodities; there is no provision of any kind that has been criticized by this Court or any other Court.

There is no conflict between the decision below and the decisions of other circuits. Petitioner asserts conflict with applicable decisions of this Court but the assertion proves

to be unfounded. No new questions, and no questions of importance not already well settled are presented by the decisions below.

The Statement in the Petition (pp. 2-3) of the subject matter involved is inaccurate and incomplete; the Statement of the Case in the supporting Brief (pp. 5-10) is almost wholly wishful fiction and much of it is irrelevant; and the purported Questions found in the Petition (pp. 3-4) are "loaded" questions and do not represent issues presented by the facts of record. Therefore, Respondent finds it necessary to restate the essential facts of record and to reformulate the questions presented. The errors, inaccuracies and distortions found in Petitioner's Statement of the Case are so numerous that merely to restate them, together with the briefest of comment, would inordinately extend this Brief. However, collectively these many misstatements paint a provocative and false picture of the actual situation. Therefore, to avoid any implied acquiescence by failure to refute the assertions of Petitioner's Statement, there are included as an Appendix, portions of the Petition and Supporting Brief in question with appropriate corrections and comments set opposite thereto.

II. Statement of the Case.

Before discussing the immediate facts which precipitated this litigation, it is believed that it would be helpful to the Court to review briefly the background of the relations between the parties. Respondent is not a manufacturer of apparatus in competition with Petitioner, but, as set forth in the affidavit of Mr. John R. Binns, Respondent's President (R. 79-86), Hazeltine* is and has been for more than

* For convenience, Hazeltine Corporation and its subsidiary companies Hazeltine Electronics Corporation and Hazeltine Research, Inc., Respondent herein, are collectively referred to as "Hazeltine".

twenty years an organization engaged in extensive research and development in the radio and television fields, having expended many millions of dollars in this effort, its budget for these purposes for the year 1947 having been $500,000. This extensive research work has resulted in numerous inventions which have been patented. Hazeltine freely licenses all manufacturers under such patents at a nominal royalty and also renders an extensive engineering, design, and testing assistance to its licensee manufacturers, which include many small companies which cannot afford expensive engineering departments of their own. This engineering assistance to small manufacturers aids and promotes their competition with the larger integrated companies. Its licensees number some 130 manufacturers, the majority of which are small companies but the value of its contributions is also recognized by numerous ones of the leading companies in the radio industry, such as Radio Corporation of America, Westinghouse, Zenith, Stromberg-Carlson, etc., which operate under license from Hazeltine (R. 79-80). Hazeltine's activities have not created a monopoly in any one or in any group of manufacturers; they have not reduced, but greatly encouraged competition.

Petitioner, desirous of obtaining rights under these patented inventions and the engineering services available, *voluntarily* took a license on October 1, 1935, but, *immediately after the issuance* of that license, it refused to make royalty reports or payments, advising Hazeltine's counsel by a letter of March 9, 1936, "that it is our present belief that our product does not embody any of the inventions described and claimed in the patents set forth in the license". As a result, Hazeltine, on December 18, 1936, brought an action in the Massachusetts State Court to compel Petitioner to pay the royalties due under the license. After the filing of Interrogatories in that action, which showed a very extensive use of Hazeltine's patented inventions by Petitioner, that suit was settled and a Consent

Decree was entered September 24, 1937 (Exh. P, R. 103), adjudging that Petitioner's entire production, constituting numerous models of radio broadcast receivers, embodied the inventions of twenty-seven of Hazeltine's patents and that such patents were valid (R. 80-81).

At the time of the entry of the Consent Decree, a general Settlement Agreement was executed (Exh. Q, R. 109) and Petitioner also *voluntarily* entered into a *second* license agreement dated October 1, 1937, for a period of 5 years, replacing the earlier license, which was terminated by mutual consent. For a period of about two and a half years thereafter, Petitioner did pay royalties under that second Agreement on the basis of its entire production of broadcast receivers, but such payments and reports were made belatedly in nearly every instance and only after insistent demands by Hazeltine. About February, 1940, Petitioner *again* became delinquent and failed and refused to pay royalties and an application was made by Hazeltine to the Court to make the interlocutory Consent Decree final. Though opposed by Petitioner in some respects, such a Final Decree was entered on December 3, 1941 (Exh. R, R. 113), continuing in substance the provisions of the prior interlocutory Consent Decree (R. 81-82).

After the entry of the Final Decree, there were extended negotiations with respect to a settlement of Petitioner's unpaid royalties under the license of October 1, 1937, which ended in a *second* Settlement Agreement between Hazeltine and Petitioner on or about September 18, 1942, and the *voluntary* execution by Petitioner of a *third* license agreement dated as of September 1, 1942, which is the agreement here involved (Exh. A, R. 5; 81-82).

At the effective date of this current license, September 1, 1942, the country was at war and the production of all civilian radio apparatus was prohibited and this condition continued until August 30, 1945. Since the resumption of

the manufacture of civilian radio apparatus, Petitioner has been engaged in the manufacture and sale of apparatus of the general nature of that outlined in subsections (a), (c), and (d) of Section 2 of Article III of the license (R. 8), particularly radio broadcast receivers (R. 83).

And now again *for the third time*, Petitioner has refused to make royalty reports and payments. Therefore, this action was brought by Respondent to recover the royalties due it under that license agreement.

The license agreement in issue is rather conventional in form and requires the payment of a moderate royalty of 1.05% upon the selling prices (with certain deductions) of, *inter alia*, complete radio broadcast receivers of sound (Article III, Section 2, subsection (a) (R. 8-9)). Since the license is granted under a large group of patents, since Hazeltine has more than 130 licensee manufacturers, and since each licensed manufacturer markets many different models of radio receivers each season, it was found in practice an undue burden on both licensor and licensee to consider all of the permutations involved in comparing the many hundreds of models of licensed radio receivers with the claims of each of such groups of patents. To do so might well involve engineering and accounting costs in excess of the royalties due. Therefore, in 1937, Hazeltine modified its standard license agreement by adopting a new yardstick for computing royalties. In its earlier licenses royalties were computed as stated percentages on apparatus *actually licensed*. The royalty provision in the agreement adopted in 1937 and still in use measures royalties as stated percentages on all apparatus *of the type licensed* (R. 79-80; 81-82). Such a provision in a license agreement has been approved by an unbroken line of authorities, discussed in the decision below (R. 300).

The license agreement does not fix prices; it does not limit production; it does not restrict the licensee's freedom

in the selection of its designs or the manufacture of its products; in fact, it contains no restrictive provisions.

The courts below concurred in approving (a) the license provision by which royalties are measured by licensee's sales of radio receivers irrespective of the extent of use of the licensed patented inventions and (b) the license notice in issue informing of the scope of the licensee's license and in holding that they do not singly or collectively relieve Petitioner of its contractual obligation to pay royalties. The courts below also concurred in holding the license valid and enforceable and Petitioner, the licensee, estopped from contesting the validity of the licensed patents.

III. Questions Presented.

Petitioner's formulation of the questions presented are based on false factual premises and include many malicious and unfounded innuendoes. Therefore, the questions actually presented by the *facts* of this case must be restated, the numbering corresponding to that of the Petition:

1. May the owner of a group of patents resulting from its extensive research and development lawfully grant to all applicants simple non-exclusive licenses without price-fixing or other restrictive provisions and giving the licensee the right to use not only any number of its presently owned group of patents, but also a right to use any or all of the inventions which may, during the term of the license, result from licensor's continuing research and development, and including a provision under which royalties are computed at a nominal rate on the sales of apparatus of the type licensed, irrespective of the extent of use of the patents. This question should be answered "Yes".

2, 3, 4. Is it a defense in a suit against a licensee for delinquent royalties that the owner of a group of patents resulting from its extensive research and development and having application to different classes of apparatus includes in its licensee agreements issued under such patents a provision requiring the licensee to attach a notice to the licensed apparatus sold by it informing the public of the scope of its license. This question should be answered "No".

5. May a licensee under a simple non-exclusive patent license agreement containing no price-fixing or other restrictive provisions which violate the anti-trust laws under any circumstances, challenge the validity of the licensed patents in an action to collect delinquent royalties. This question should be answered "No".

It is interesting to note that *none* of the defenses implicit in either Petitioner's formulation of the Questions Presented or in the correct formulation of these Questions above, was pleaded either in Petitioner's Answer (R. 45) or in its Amended Answer (R. 71). Hazeltine submits that Petitioner's eleventh-hour shift in position is but a belated attempt to bolster a desperately weak case.

IV. Argument.

A. General.

Petitioner's whole approach to its defense of this action reflects a studied disrespect for business honesty. Here we have a manufacturer who refuses to recognize its solemn contractual obligations, is haled into Court, makes a settlement and a new agreement, *only to repeat the process a second time and a third time.* The whole attitude of the company is reflected in the actions of its President, Mr. David Housman, on whose shoulders the obligations of an

oath apparently weigh lightly. Mr. Housman filed an affidavit in support of Petitioner's Motion to Amend its Answer to allege fraud in the inducement of the license agreement (R. 71, para. 14). That affidavit stated, *inter alia:*

> "* * * at the time I was induced to acquire the patent license the principal patents with which I was concerned had been held to be invalid, *the most important of all of them by the Supreme Court of the United States,* which facts were not known to me. * * *
>
> "Reissue Patent No. 19,744 was invalidated by the Supreme Court of the United States on May 12, 1941, as reported in 313 U. S. 259." (R. 72-73; italics added)

When confronted with a copy of Hazeltine's letter to him dated May 14, 1941, notifying him of the above-mentioned decision of the Supreme Court (R. 117) and his acknowledgment of such letter (R. 18), both some *16 months prior* to the execution of the license agreement, he glibly admitted in a supplemental affidavit (R. 197-201) that, with respect to his former affidavit,

> "* * * The statements contained therein were based solely on recollection"

of events occurring more than six years prior.

Petitioner is attempting to reap where it has not sown. In 1941 it was using the inventions of *twenty-seven* of the Hazeltine patents in various of its broadcast receivers (Exh. R, R. 113-116). In 1947 it was using the inventions of *ten* of the Hazeltine patents (Plaintiff's Answers to Defendant's Interrogatories, R. 50-52). *This use of Hazeltine's patented inventions is not denied.* While an affidavit of Leo A. Kelley (R. 207-213), filed on behalf of Petitioner makes various attacks on the *validity* of certain of these ten patents, it contains no allegation of non-use of any of them by Petitioner.

These patented inventions are the partial results of millions of dollars spent by Hazeltine in research and development work in the radio field over a period of more than twenty years. Petitioner has made *no* contribution to the development of the art, but has chosen freedom to enjoy the fruits of Hazeltine's work under license but resists payment of its royalty obligations therefor.

Petitioner's appraisal of Respondent's patents must be discounted in the light of its hostile attitude toward all patents as expressed by the statements in its Brief:

> "A single patent is a potent weapon of business aggression. Its potency is enhanced if it is related to a mass production industry where the penalty for guessing wrong as to its validity or infringement may be the complete ruin of a business." (p. 11).
>
> * * *
>
> "And it (an industry) must pay, however poor the patents, because of the cost of litigation, or the disastrous consequences if a single suit should be decided wrong without being able to get a review by this Court, or both" (p. 12).

The latter quotation is particularly informative because, first, it conclusively presumes that a holding of validity and infringement of *any* patent by *any* lower court must be "wrong" and, second, it contemptuously presumes that every patent reviewed by this Court will be held invalid or not infringed!

In the light of its background, it is not surprising to find Petitioner's resorting to the wholesale use of unfounded and slanderous attacks upon Hazeltine and its business in an effort to distract the Court's attention from its total lack of legal defenses based upon facts.

B. Summary of Argument.

This is an action for delinquent royalties under a simple non-exclusive patent license contract having no restrictive

provisions. Petitioner asserts no direct defense to the contract but attempts to evade its obligation to pay royalties by raising a number of spurious collateral issues which are insufficient in law and unfounded in fact.

Petitioner's Brief further utilizes the familiar maxim of the propagandist that if an untruth is repeated often enough, it will ultimately be believed. Thus, in twenty-seven instances (pp. 2 (twice), 3 (twice), 4, 6, 9, 12, 14 (twice), 17 (three times), 18 (seven times), 19, 26, 27 (twice), 29 and 30), it falsely attempts to attach the stigma of a "patent pool" to the patents resulting from Hazeltine's extensive research work. There is no "pool" of patents in this case within the usual meaning of that term. The term "pool" in the obviously intended derogatory sense refers to the collection of patents by interested competitors for their joint and monopolistic benefit. Hazeltine's patented inventions are the fruit of millions of dollars and years of effort spent by it in research and development to advance the radio art (R. 80), and are freely licensed to *all* manufacturers at a nominal royalty. In addition, it has license rights (not ownership) under a few patents which it acquired as partial consideration of damages under infringement judgments; these rights are made available to licensees generally without extra charge (R. 255).

The Court's attention is directed particularly to the fact that Petitioner's references to the Record in support of its distorted Statement are almost entirely to an affidavit of its counsel, George K. Woodworth, occupying 25 printed pages of the Record (R. 172-197). This affidavit comprises numerous allegations which are general and sweeping in character and are very clearly conclusions reached from industry gossip and rumor since, in such a large part, they are unsupported by, or completely inconsistent with, actualities; it is little more than a sworn brief of Petitioner's counsel in which it is frankly acknowledged:

> "This affidavit is made on information and belief, except as to matters of public record and as to matters stated to be within my own knowledge." (R. 172)

Paragraph 7(b), (R. 189-190) is the only allegation purporting to be made on personal knowledge and that allegation is wholly irrelevant; matters of public record require no supporting affidavit.

Mr. Woodworth's Affidavit is incompetent for three reasons:

(1) It is not "made on personal knowledge" as required by Rule 56(e) of the Federal Rules of Civil Procedure;

(2) It does not "set forth such facts as would be admissible in evidence" (Rule 56(e)) since the allegations are almost entirely hearsay or rumor;

(3) It does not "show affirmatively that the affiant is competent to testify to the matters stated therein" (Rule 56(e)). In fact, the great bulk of the Affidavit deals with subject matter of which Mr. Woodworth could not possibly have any direct personal knowledge. Lacking such personal knowledge, he obviously would be incompetent to testify with respect thereto in open court.

The District Court so held with respect to the Woodworth affidavit, saying:

> "* * * I have reviewed the pleadings and affidavits and find no specific allegation of facts on personal knowledge required by Rule 56 (e)." (R. 299)

The Court of Appeals similarly characterized this affidavit:

> "* * * A lengthy affidavit executed by one of counsel for Automatic, and filed by Automatic in support

> of its motion for summary judgment, contains many sweeping claims and charges, but the affidavit was made for the most part 'on information and belief,' and not on personal knowledge, as required by Rule 56 (e)." (R. 316-317)

Therefore, any assertions in the Petition or supporting Brief, based on references to pages 172-197 of the Record, must be completely disregarded.

Petitioner's purported Statement of the Case is substantially a verbatim copy of corresponding portions of its Brief in the Court of Appeals. In view of its intemperate use of unfounded vilification and innuendo, the Court of Appeals found it appropriate to remark, with admirable restraint:

> "* * * In its brief, Automatic has enveloped the case in an atmosphere of overreaching and chicanery hardly warranted on the record * * *." (R. 316)

Respondent is confident this Court will not be misled by this hallmark of an unsupportable case.

Respondent's argument which follows is necessarily confined to a refutation of Petitioner's collateral defenses, which are taken up in order.

C. The provision for the payment of royalties on all sales of apparatus of the type licensed does not, under the facts of this case, constitute a misuse of Respondent's patents (Question 1).

The facts are briefly these. The license agreement in question grants to the licensee a license to manufacture and sell certain types of radio apparatus (Article III, Section 2, R. 8). The license extends to the licensee the *right or privilege* to use any one or more of the patents enumerated in the agreement and *also the right or privilege* to use any or all of the inventions which may come from

the continuing research work of the Hazeltine laboratories during the term of the agreement (Article III, Section 1, R. 7). It also provides that the licensee pay a nominal royalty measured as a percentage of the licensee's selling price of all apparatus of the type licensed (Article IV, Section 1, R. 9). This provision is one of several different types sanctioned by custom and by authority for the measurement of royalties, among which may be mentioned monthly or annual flat sum payments; payments based on volume rather than price; and royalties based upon the selling prices of apparatus covered by claims of a specifically enumerated patent or patents and including a guaranteed minimum irrespective of sales. From the viewpoint of the licensor, the provision in issue has the advantage of avoiding an examination of each new model sold by each licensee to determine if licensed patents are used; from the viewpoint of the licensee, it has the advantages of saving patent counsel and other fees and enabling the licensee to know in advance that each model will bear a fixed cost for royalties so that it can price its receivers without waiting for the licensor to advise it if royalties are payable on any specific model. It appears particularly advantageous to a small licensee which does not maintain extensive legal and accounting departments and to which speed in merchandising is frequently vital to profitable operation in the intensely competitive radio industry.

Under such a license, the licensee has complete freedom of design under Hazeltine's present and future inventions. So far as the license agreement is concerned, licensee is free to market any type of apparatus he chooses without restriction; it can embody in any given receiver one patented invention or several patented inventions, as does Petitioner (R. 119-121), or it may use none. For this privilege the licensee pays a nominal royalty averaging less than 1% of its selling price of apparatus within the field of the license, which corresponds to less than 1% of

the retail list price of the apparatus (R. 249). Petitioner may now consider that it made a bad bargain in agreeing to pay royalties on all receivers for the right to use Hazeltine's patented inventions, but there is nothing illegal in computing royalties in this manner, and it does not in any way enlarge the scope of Hazeltine's patent rights. This method selected by Hazeltine is merely one of several ways of measuring royalty payments.

This type of license has received judicial sanction in all cases in which it has been considered.

Both the District Court and the Court of Appeals agreed that this was a legitimate and equitable business arrangement which did not in any way contravene the public interest. This was lucidly explained in the opinion of Judge MAGRUDER:

> "*Royalty Payments.* It has been pointed out above that the license agreement gave Automatic the right to make use of any of Hazeltine's patents, and required Automatic to pay royalties measured by a percentage of the selling price of all radio apparatus of specified types manufactured and sold by Automatic, whether or not any particular apparatus in fact utilized any of the inventions of the Hazeltine patents, with a minimum royalty payment of $10,000 a year. There is no valid objection to this sort of agreement; the parties are free to bargain as to the basis upon which the royalties are to be computed. *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906 (D. N. J. (fol. 323) 1947). *Cf. Pyrene Mfg. Co.* v. *Urquhart*, 69 F. Supp. 555, 560 (E. D. Pa., 1946); *American Optical Co.* v. *New Jersey Optical Co.*, 58 F. Supp. 601, 606 (D. Mass., 1944); *Ohio Citizens Trust Co.* v. *Air-Way Elec. Appliance Corp.*, 56 F. Supp. 1010, 1012 (N. D. Ohio, 1944). As stated in one of Hazeltine's affidavits, this type of royalty clause was originally adopted 'for convenience of accounting'. The Court below stated: 'This is a convenient mode of operation designed by the parties to avoid the necessity of determining whether

> each type of defendant's product embodies any of the hundreds of patents which plaintiff controls." 77 F. Supp. at 496. Certainly a licensee, in consideration of the grant of the right to use a licensor's patent, may lawfully promise to pay the licensor a fixed sum per year during the life of the agreement; and this promise would not become unenforceable merely because the licensee in a particular year happened not to utilize the invention. If this is so, it would be no more against public policy to stipulate for a variable consideration by way of royalty for the right to use the patent, whether such consideration were expressed in terms of a percentage of the net profits of the licensee's business, or (as here) in terms of a percentage of the selling price of certain apparatus manufactured and sold by the licensee. Depending on the circumstances such a percentage royalty might well be a lesser charge upon the licensee's business than a stipulation for payment of a flat sum yearly." (R. 319-320)

In addition to the authorities cited above, the same ruling has been followed elsewhere:

> *International Carbonic Engineering Co.* v. *Natural Carbonic Products, Inc.* (S. D. Cal., 1944), 57 F. Supp. 249; affirmed (C. C. A. 9, 1946); 158 F. (2d) 285;
>
> *Hazeltine Research, Inc.* v. *Admiral Corp.* (N. D. Ill., 1949) — F. Supp. — ; 83 U. S. P. Q. 340, 345.

The latter case is of particular interest in view of the fact that the same defense of misuse of patents because of this same license provision was vigorously urged by counsel for defendant in that case, who is also counsel for Petitioner here. Petitioner makes an odd virtue of necessity by treating this unanimity of the courts, not as a confirmation of the legal soundness of such license provisions, but as an alarming trend (Brief, p. 22). The trend is "alarming"

only to the extent that it indicates a growing tendency of licensees to attempt evasion of the solemn obligations of their contracts.

(1) Judge Woodbury's Dissenting Opinion.

In his dissenting opinion below, Judge Woodbury disagreed with the majority as to the effect of the license in issue and on this factual difference thought applicable the decisions of this Court in the following cases:

Morton Salt v. *Suppiger*, 314 U. S. 488, 492;
B. B. Chemical v. *Ellis*, 314 U. S. 495, 498;
Mercoid v. *Midcontinent*, 320 U. S. 661, 665.

The facts of those cases are pivotally distinguishable and Judge Woodbury's lack of comment on them leaves his dissent empty and unpersuasive.

In the *Morton Salt* case, Suppiger owned a patent on a machine for automatically dispensing salt tablets, useful in the canning industry. It granted licenses requiring the licensees to use the patented machines only with unpatented salt tablets sold by it. Suppiger brought an action of infringement with respect to machines sold to the canning industry by Morton. The defense was that Suppiger was guilty of illegal restraint of trade in the sale of the unpatented salt tablets.

In denying relief to Suppiger because of unclean hands arising from its illegal practices, Mr. Justice Stone said:

> "It thus appears that *respondent is making use of its patent monopoly to restrain competition* in the marketing of unpatented articles, salt tablets, for use with the patented machines, *and is aiding in the creation of a limited monopoly* in the tablets not within that granted by the patent. A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant, Inter-

> state Circuit v. United States, 306 U. S. 208, 228, 230; Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 456, and *the use of it to suppress competition in the sale of an unpatented article* may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor. * * *" (Italics added; p. 491.)

Neither the facts nor the rule of law involved in the *Morton Salt* case has any application here. The holding of this Court in the *Morton Salt* case was limited to the situation where the patent owner uses his patent to restrain competition by tying-in sales of unpatented commodities, thus creating a monopoly *in a field outside the patent grant.* The facts of the present case distinguish it from the *Morton Salt* case in two essential respects:

(1) There is no use of any patent rights by Hazeltine "to restrain competition in the marketing of unpatented articles" or in *any* articles. Hazeltine does not itself manufacture any apparatus of the type licensed and therefore does not restrain any competition with it. The license includes no restrictions of any kind bearing on competition by the licensees with Hazeltine or with each other.

(2) As a corollary of (1), Hazeltine is not using its patents for "aiding in the creation of a limited monopoly" or in any monopoly of any kind. It freely licenses all manufacturers at a nominal royalty and provides engineering assistance to its licensees including many small companies which could not afford extensive engineering of their own (R. 80) and thus actively *promotes* competition in the industry, the very antithesis of monopoly.

In the *B. B. Chemical* case, that company owned a patent on a method of reinforcing the insoles of shoes. It supplied machines for practicing the method to various shoe manufacturers, retaining ownership of the machines, and also supplied unpatented materials for use with the ma-

chines in practicing the patented method. The lower courts held that this practice operated as a license to use the patented machine only with the unpatented material and thus restrained competition with B-B. Chemical in the sale of the unpatented materials.

This Court found that the issue was the same as that involved in the *Morton Salt* case, saying:

> "But in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in our opinion in the Morton Salt Company case, we hold that the maintenance of this suit to restrain any form of infringement is contrary to public policy, and that the district court rightly dismissed it." (p. 497, 498)

In the *Mercoid* case, Midcontinent owned a patent on a domestic heating system. It granted an exclusive license to Minneapolis-Honeywell, the royalty payments to be based *only* upon the sales of an unpatented switch, which was an element of the combination claimed in the patent. None of the parties involved actually sold or installed complete heating systems, but Minneapolis-Honeywell sublicensed heating contractors to use the patented system provided the sublicensee used only unpatented switches purchased from it. This Court did not condemn the provision for royalty measurement there involved but found that:

> "There was ample evidence to sustain the findings of the District Court that respondents endeavored to use the license agreement so as to prevent the sale or use of combustion stoker switches in these heating systems unless they were the switches made by Minneapolis-Honeywell and purchased from it or its sub-licensees." (p. 663)

Midcontinent brought an action for contributory infringement against Mercoid on account of its sales of unpatented

switches for use in the patented heating system. It appeared that such switches had no use other than in the patented system. In holding that Midcontinent was barred from recovery because of its misuse of its patent, this Court said:

> "* * * The struggle is not over a combination patent and the right to make or vend it. The contest is solely over unpatented wares which go into the patented product. Respondents point out that the royalties under the license are measured by the number of unpatented controls which are sold and that no royalty is paid unless a furnace covered by the patent has been installed. But the fact remains that *the competition which is sought to be controlled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls.* The patent is employed to protect the market for a device on which no patent has been granted. * * *" (Italics added; pp. 666, 667)

Thus in each of the three cases under discussion the gravamen of the objection to the patent owner's practices was that he was using a patent on *one entity* (machine or process) to restrain competition and create a monopoly in *another and unpatented entity.* These cases have nothing to do with a contract under which royalty payments are made for the *right to use* present *and future* inventions in a particular class of apparatus and in which such payments are made without regard to whether the inventions are actually used, which is the situation presented here. This distinction was brought out clearly by the Court of Appeals as follows:

> "A different problem would be presented if the license agreement had provided that, in part consideration for the right to make use of Hazeltine's patents, Automatic agreed not to compete in the commercial field in the manufacture and sale of any radio apparatus of the types enumerated, even though such apparatus did not embody any of the inventions covered by Hazeltine's patents. Such an

agreement might be unenforceable as constituting an unlawful attempt to extend the monopoly of licensor's patents beyond the limits of the patent grants. But as we read the license agreement in the case at bar, Automatic would not break the agreement by manufacturing and selling for unrestricted use radio apparatus which in fact does not embody any of the inventions covered by Hazeltine's patents. This is true notwithstanding the fact that Automatic, in making such a sale, would be required by Article IV, Section 1, of the agreement to pay to Hazeltine the stipulated percentage of the selling price as royalty for the *right* to utilize the patents covered by the license agreement." (R. 320)

A further important fact distinguishing the instant case from those discussed above is that the license *sub judice* is not merely a license under a single patent; it is a grant to the licensee of the *right or privilege* of using any, or all, of the group of patented inventions now owned by Hazeltine and *in addition* a grant of the right to use any inventions which may be acquired by Hazeltine during the term of the agreement either from its extensive research and development activities or otherwise. There is nothing inherently illegal or unconscionable in an unrestricted contract available to anyone in the industry which guarantees to a licensee a license under all of the fruits of an extensive research laboratory for a perod of years at a nominal rate of royalty based on sales in the field of activity of the laboratory. Thus, the license agreement must be sustained on this ground independently, even if Hazeltine had *no patents at present* and even though *no patented inventions should result* from such research work.

(2) Petitioner's Statement and Argument.

At the outset, Petitioner's challenge of this provision of its license agreement (pp. 11-14, 19-22) is moot for it has used and is using the Hazeltine patented inventions extensively. In 1941 it was using *twenty seven* Hazeltine pat-

ents (Exh. P, R. 103). It is still admittedly using *ten* patented inventions of Hazeltine (R. 50-52; *supra*, p. 8).

In the portions of its Brief dealing with this question (pp. 11-14 and 19-22) Petitioner reaches the zenith of its reckless abuse of Hazeltine and the nadir of its logic. It resorts to name calling (racketeers, p. 12) and postulates an insinuating hypothetical example at page 12 which is malicious but purely frivolous. Petitioner's purported factual discussions and implied assumptions in its argument at this point understandably include no supporting references to the Record; they are pure fantasy.

Petitioner advances the novel contention that the mere fact that Hazeltine has made numerous major and minor advances in the art as a consequence of its general research and development work over a period of years, resulting in a large number of patented inventions, should inflict some sort of a penalty upon Hazeltine. Hazeltine's efforts to comply with the Constitutional injunction "to promote the progress of science and useful arts" (Article I, Section 8) over a period of some 24 years has been intensive, extensive, and expensive. Its efforts have been recognized by the leaders in the industry who have utilized its inventions under license (R. 79-80). Respondent knows of no authority on patent matters which has considered itself above the United States Constitution and attempted to nullify the express Constitutional provision by attaching a penalty to any organization actively engaged in promoting the progress of the useful arts and thereby creating a large number of patentable inventions. Petitioner has cited no such authority.

Contrary to Petitioner's assertion (pp. 12, 18), there is no evidence that Hazeltine has ever coerced or forced anyone, including Petitioner, to enter into a license agreement with it and that assertion is untrue. *Petitioner voluntarily signed three successive license agreements with*

Hazeltine and as many times breached its agreements (R. 80-83). On the other hand, a number of radio manufacturers, both large and small, are now operating without a license from Hazeltine (R. 249-251), which negatives any effective coercion.

The case of *United States* v. *Paramount Pictures* (334 U. S. 131) cited by Petitioner is not in point. That case condemned "block booking". In the portion of the opinion quoted by Petitioner, this Court carefully defined "block booking" and quoted with approval from the opinion of the trial court to the effect that

> "Block booking * * * 'adds to the monopoly of a single copyrighted picture that of another copyrighted picture *which must be taken and exhibited* in order to secure the first'." (Italics added; pp. 156, 157)

Under the license agreement here in issue, the licensee is not required to use any unwanted patented inventions. He merely pays a nominal royalty of less than 1% for the *right or privilege* of using any desired ones of Hazeltine's group of patented inventions *and* any desired ones of the future inventions coming out of the continuing research work of the Hazeltine laboratories during the term of the agreement. This practice has no relation to "block booking".

Petitioner also relies on the case of *United States* v. *U. S. Gypsum*, 333 U. S. 364, but that case is not in point. That case was an action by the United States against U. S. Gypsum and a number of its licensees charging violation of the Sherman Act. The theory of the complaint was that through their license agreements the defendants had entered into a conspiracy in restraint of trade. The licenses provided that the royalty payable for the privilege of manufacturing, using, and selling gypsum board under the patents was an amount equivalent to the designated

percentage of the licensees' sales of *all* gypsum board manufactured by them, whether patented or not.

In sustaining the right of a licensor to provide for such a determination of royalties, a special three-judge statutory court of the District of Columbia held (67 F. Supp. 397):

> "* * * This royalty provision is in effect a provision for a percentage of gross sales, and as such is but a convenient means for measuring the amount to be paid for the privilege of using the patents. It might with equal propriety have been a lump sum. * * * this provision in the license agreements can hardly be looked upon as an attempt to impose a royalty upon an unpatented product." (p. 470)

While this Court did reverse the judgment of the trial court in that case, it did not reverse the holding quoted above. The essence of the decision of this Court in the *U. S. Gypsum* case is that where a licensor and a number of licensees, *acting in concert*, devise a license agreement including a number of restrictive clauses which, but for the existence of valid patents, would represent violations of the anti-trust laws, the arrangement comprises effectively a *conspiracy* in restraint of trade and is illegal, even though it is assumed that the license agreement is perfectly legal when issued by a licensor to its licensees without any concerted action. This is borne out by the following references to the opinion of this Court:

> "* * * The complaint charged that the appellees had violated both Secs. 1 and 2 of the Sherman Act by conspiring to fix prices on patented gypsum board and unpatented gypsum products, to standardize gypsum board and its method of production for the purpose of eliminating competition, and to regulate the distribution of gypsum board by eliminating jobbers and fixing resale prices of manufacturing distributors. (p. 367; this Court found that the evidence supported these charges)

> "Appellees admit that in the absence of whatever protection is afforded by valid patents the licensing arrangements described would be in violation of the Sherman Act." (p. 386)

This Court further held that the particular license provision in question, basing royalties on gross sales, *taken in conjunction with other evidence*, showed a *conspiracy* to restrict the production of unpatented products:

> "* * * The provision in the license contracts that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board; *and the testimony of the witnesses is ample to show that there was an understanding, if not a formal agreement, that only patented board would be sold.* Such an arrangement in purpose and effect increased the area of the patent monopoly and is invalid." (Italics added; p. 397)

It is clear throughout this Court's opinion that it assumed the legality of the license agreement *sub judice*, when separated from its conspiratorial context:

> "* * * Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, *constituting all former competitors in an entire industry, had acted in concert*, to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices. *That conclusion follows despite the assumed legality of each separate patent license*, for it is familiar doctrine that lawful acts may become unlawful when taken in concert." (Italics added; p. 401)

The authorities cited by the Court of Appeals and those cited above (p. 15), have adopted a practicable and reasonable rule and one that does not extend the patent monopoly or otherwise impinge upon the public interest. No authorities have reached a different conclusion.

D. The License Notice specified in the Agreement merely informs the public of the limits of licensee's rights and does not constitute a misuse of the licensed patents (Questions 2, 3 and 4).

The license notice provision of the Hazeltine license reads:

> "Licensed * * * only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications:"

followed by the word

> "Patent * * *." (Exh. A, Article VI, Section 2; R. 14)

This notice is *exactly commensurate with the scope of the license* granted:

> "Section 2. The apparatus for which the said license is granted is as follows; the use in each case is limited to use in homes, use for educational purposes and private non-commercial use:
>
> "(a) Complete radio broadcast receivers of sound; (etc.) * * *" (Exh. A, Article III, Section 2; R. 8.)

Hazeltine's patented inventions are useful in a number of classes of apparatus that have acquired rather distinct status commercially. Licenses under *all* of the Hazeltine patents are readily available to *all* parties with respect to *all* classes of apparatus. But because of the differences in the nature of different classes of apparatus, different royalty rates and different methods of royalty computations are included in the licenses with respect to the several classes of apparatus. The only effect of the license notice in question is to inform the public of the limit of the particular manufacturer's license and whether the apparatus in question *was ever licensed.*

This type of license notice was expressly approved by this Court in the case of *Western Electric* v. *General Talking Pictures* (1938), 304 U. S. 175. In that case, American Telephone and Telegraph Company, through its subsidiary Western Electric, had granted a non-exclusive license under certain patents relating to amplifying equipment to American Transformer Company. This Court described the license notice as

> "* * * stating in substance that the apparatus was licensed only for radio amateur, experimental and broadcast reception under the patents in question. * * *" (p. 180)

The similarity between that license notice and the one in issue is marked. American Transformer made for and sold to defendant amplifying equipment of the licensed type but for use in the talking picture field, even though defendant knew of the restrictions on the license. In accordance with the requirements of the license, these equipments carried a notice as to the restricted field of use. In an infringement action brought against defendant, this Court found that the restriction as to use was a legal and permissible limitation on the license stating:

> "Patent owners may grant licenses extending to all uses or limited to use in a defined field. *Rubber Company* v. *Goodyear*, 9 Wall. 788, 799, 800. *Gamewell Fire-Alarm Telegraph Co.* v. *Brooklyn*, 14 Fed. 255. *Dorsey Rake Co.* v. *Bradley Co.*, Fed. Cas. No. 4,015, 7 Fed. Cas. 946, 947. Robinson on Patents, Secs. 808, 824. Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly. *Bement* v. *National Harrow Co.*, 186 U. S. 70, 93. *United States* v. *General Electric Co.*, 272 U. S. 476, 489. There is here no attempt on the part of the patent owner to extend the scope of the monopoly beyond that contemplated by the patent statute. Cf. *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, 33. *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458." (p. 181)

Subsequently, a reargument was permitted and again this Court expressed its approval of the limitation as to use, as follows:

> "The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear. *Mitchell* v. *Hawley*, 16 Wall. 544. As was said in *United States* v. *General Electric Co.*, 272 U. S. 476, 489, the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure'. The restriction here imposed is of that character." (305 U. S. 124, 127)

The *General Talking Pictures* case received unusually careful consideration by this Court. It was covered in a decision at 304 U. S. 175; corrected in language at 304 U. S. 546; affirmed on rehearing at 305 U. S. 124; and further rehearing denied at 305 U. S. 675. On rehearing the Solicitor General appeared as *amicus curiae*. Each decision was accompanied by a detailed dissenting opinion. Respondent and the public generally were therefore fully justified in regarding that decision as a final statement of the law. No later authorities have in any way modified the ruling of the *General Talking Pictures* case. If there were ever an instance for appropriately invoking the doctrine of *stare decisis*, this would seem to be it.

(1) Petitioner's Argument.

Petitioner states (p. 15) that there was a vigorous dissent by Mr. Justice BLACK in the *General Talking Pictures* case. It conveniently omits to state that the dissent was on an issue not presented here, as appears from the dissenting opinion itself:

> "The area of the patent monopoly is expanded by the holding that the exclusive right granted an inventor to 'make, use and vend' his patented commercial device, permits the inventor's corporate as-

signee (and other 'patent pool' participants) to *control how, and where the device can be used by a purchaser who bought it in the open market.*

"Petitioner bought amplifying tubes from the American Transformer Company, a licensee authorized to 'manufacture * * * and sell only for radio amateur reception, radio experimental reception and radio broadcast reception.' The devices are of a standard and uniform type generally useful in many 'fields'.

"*We are not here concerned with the right of respondents under the contract with the licensee,* American Transformer Company. * * *" (Italics added; pp. 183, 184)

In fact, in its challenge of the license notice in issue, Petitioner sets up a straw man, the more easily to knock it down. Its entire consideration on this point is as to the effectiveness of such a license notice on an admittedly licensed device *after it has passed through the channels of commerce and into the hands of the purchasing public. But that question is not even before this Court* and, for that reason, none of the cases cited by Petitioner is relevant. This is not a suit by Hazeltine against a *purchaser* of licensed apparatus from Petitioner. The question presented here is solely whether, *as between licensor and licensee*, the requirement of a license notice specifying the field of use is illegal *per se*, but that question is no longer open to dispute, such notice having been expressely found to be valid in the *General Talking Pictures* case, *supra*. That decision has never been reversed or modified.

Neither the case of *Motion Picture Patents* v. *Universal Film* (243 U. S. 502), nor *United States* v. *General Electric* (272 U. S. 476), nor *Ethyl Gasoline* v. *United States* (309 U. S. 436), cited by Petitioner, has any application here, since none of those cases involved the propriety of a license notice of any kind. The *Motion Picture Patents* case and the *Ethyl Gasoline* case involved a clause tying

in the sales of an unpatented commodity with the licensed apparatus while the *General Electric* case involved a price fixing clause.

Petitioner suggests that the *General Talking Pictures* case did not overrule or modify the *Motion Picture Patents* case. Of course it did not, since the two cases decided entirely different questions.

At page 26 of its Brief, Petitioner argues that the license notice in question is an attempt to extend the patent monopoly. *As between the licensor and the licensee* no extension of monopoly has been or can be demonstrated from the use of such a license condition "which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure" (*General Talking Pictures* case, *supra*).

Petitioner has not shown that it is in any way injured by the license notice in question but, even if it could make such a showing, it would be irrelevant to its obligation to pay royalties.

E. A licensee under a simple, non-exclusive patent license agreement containing no restrictive provisions cannot challenge the validity of the licensed patents (Question 5).

While it is irrelevant whether Petitioner can contest the validity of the licensed patents, since the agreement merely gives it the *privilege* of using any one or more or none of Hazeltine's patents, present and future, as a matter of law, Petitioner as licensee *is* estopped from contesting validity. This is one of the oldest doctrines of the patent law and with certain exceptions not relevant here, has been universally accepted. Ninety years ago this Court unanimously announced the doctrine that a licensee under a patent is estopped from challenging the validity of that patent. *Kinsman* v. *Parkhurst*, 18 How. 289. The rule

expressed in that case has become so much part of our law that fifty years later this Court deemed it unnecessary to discuss it and unanimously applied it even against the United States as licensee. *United States* v. *Harvey Steel Co.*, 196 U. S. 310. This Court has never questioned the rule. The principle has withstood judicial scrutiny for nearly a century.

Petitioner cites *Sola* v. *Jefferson*, 317 U. S. 173; *Katzinger* v. *Chicago Metallic*, 329 U. S. 208; and *MacGregor* v. *Westinghouse*, 329 U. S. 402, cases for the proposition that:

> "* * * a licensee may challenge validity when patents are being used for a purpose which would constitute a misuse of patents if they are invalid * * *."

The decisions do not support this broad proposition. Each of these three cases involved a license agreement having *price-fixing* provisions. The decisions themselves make clear that they are limited to license contracts having *inseparable, intrinsic restrictions* such as price-fixing which, but for the validity of the licensed patents, would *per se* render the contract illegal under the anti-trust laws.

Mr. Justice BLACK, in writing the opinion in the *MacGregor* case, is careful to point out this distinction at the very beginning:

> "This case, like that of Edward Katzinger Co. v. Chicago Metallic Mfg. Co., Nos. 70, 71, this day decided, involves the right of a patent licensee to defend a suit for royalties only under a licensing agreement which contains a price fixing provision. * * *" (pp. 403, 404)

In the instant case the license contract contains no price-fixing provisions nor any restrictive clauses which, but for the existence of valid patents, would cause the contract to run afoul of the anti-trust laws.

Similarly, Petitioner cites the case of *Pope* v. *Gormully* (144 U. S. 224), but that case is not in point. In that case the parties entered into a license agreement relating to bicycles and including licenses under some 65 patents owned by plaintiff. The license included *inter alia* the following restrictive provisions: (1) (Par. 6) Agreement by defendant to sell only at retail and at prices approved by plaintiff and to sell only through agents in Chicago; (2) (Par. 8) Admission by defendant of validity of all patents and of plaintiff's title thereto and admission of use of specific inventions in defendant's bicycles; (3) (Par. 9) Agreement by defendant to make only specified types and sizes of bicycles; (4) (Par. 11) Right of defendant to surrender the license, providing that such surrender should not release it from the above specified obligations, which were stated to be irrevocable.

Plaintiff brought a bill in equity for an accounting and for specific performance of the agreement by defendant alleging that defendant was manufacturing and selling bicycles of the prohibited types. The court below held that defendant was violating the contract but that the contract was not of such a nature as to entitle plaintiff to specific performance. This Court affirmed, stating the facts and its conclusions as follows:

> "*This case involves the question whether a court of equity can be called upon to decree the specific performance of a contract*, wherein the defendant, in consideration of receiving a license to use certain patents belonging to the plaintiff during the life of such patents, agrees never to import, manufacture or sell any machines or devices covered by certain other patents, unless permitted in writing so to do, nor to dispute or contest the validity of such patents or plaintiff's title thereto, and further to aid and morally assist the plaintiff in maintaining public respect for and preventing infringements upon the same, and further agrees that if, after the termina-

tion of his license, he shall continue to make, sell or use any machine or part thereof containing such patented inventions the plaintiff shall have the right to treat him as an infringer, and to sue out an injunction against him without notice." (p. 232)

* * * *

"Ordinarily the law leaves to parties the right to make such contracts as they please, demanding, however, that they shall not require either party to do an illegal thing, and that they shall not be against public policy or in restraint of trade. * * * (p. 233)

* * * * It is impossible to define with accuracy what is meant by that public policy for an interference and violation of which a contract may be declared invalid. * * * (p. 233)

* * * * *The exigencies of this case do not require us to decide the question whether a man may or may not contract beforehand not to set up a certain defense to a particular action;* but we are of the opinion that a contract not to set up any defense whatever to any suit that may be begun upon fifty different causes of action is in violation of public policy. * * * (p. 236)

"*But whether this contract be absolutely void as contravening public policy or not, we are clearly of the opinion that it does not belong to that class of contracts, the specific performance of which a court of equity can be called upon to enforce. To stay the arm of a court of equity from enforcing a contract it is by no means necessary to prove that it is invalid;* * * *" (Italics added; p. 236)

Under this heading Petitioner repeatedly makes derogatory references to Hazeltine's "pool" of patents (Brief pp. 27-30). These references are unwarranted as pointed out above (p. 10). Hazeltine *has not created any pool* of patents. The patents in question are almost wholly the result of its own extensive research and development over a period of more than 20 years, activity which was directed to promoting the progress of the radio and television art.

F. Conclusion.

Accordingly, it is submitted that the Petition must be dismissed for the following reasons:

(1) The license agreement in dispute is a simple, non-exclusive patent license including no restrictive provisions of any kind.

(2) Respondent has not misused its patents in any way.

(3) Petitioner is admittedly using a large number of Respondent's patented inventions under which it is licensed.

(4) Petitioner is estopped from contesting the validity of the licensed patents.

Respectfully submitted,

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APPENDIX

Portions of Petition and Supporting Brief Including Erroneous, Misleading or Distorting Assertions of Fact With Comment

I. Summary and Short Statement of the Subject Matter Involved (Petition, pp. 2-3).

4. Hazeltine's motion for summary judgment asserted that four of its patents were used by Automatic Radio (R. 119-168). This was disputed (R. 199-200; 207-246; 277-282; 289-292).

5. Hazeltine attempts to restrict the use to which radio receivers may be put, after purchase from its licensees by the public through retail stores, by requiring a restrictive use notice to be placed on every set (R. 10; Art. VI, Sec. 2).

II. Statement of the Case (Supporting Brief pp. 5-40).

2. Before and since 1927 Hazeltine acquired patent rights from other companies and individuals, forming a vast pool of radio patents owned by it or under which

COMMENT

Hazeltine has asserted (R. 50-70) that Petitioner is using *ten* (not four) of Hazeltine's patented inventions. This use is *not disputed*, as Petitioner asserts, except in the safe harbor of its Briefs. The record references do not contain a single allegation that Petitioner is not using any of the ten Hazeltine patents.

Hazeltine has never attempted any such restriction and the record reference does not support the assertion. Licenses are readily available to *all* under *all* Hazeltine patents with respect to *all* classes of apparatus. The license notice in question merely serves to inform the public of the limit of the license under which a particular manufacturer made a particular article.

There is no "pool" of patents. As of the filing of the Complaint, the great majority of the patents under which Hazeltine had the right to grant licenses were

it has licensing rights, which now include some 570 patents and 200 patent applications (R. 79). Most of these are listed at R. 93-101 with the names of the owners in most cases.

4. Hazeltine has, however, spent only a very small percentage of the money it has received as royalties for research on radio receivers (R. 173(h); 248), with the result that none of its patents has any value. Every patent on which it has sued since the Neutrodyne patents has been held invalid or not infringed or both (R. 179) * * *.

5. Hazeltine has kept its licensees in line by a succession of suits against non-licensees and their dealers (R. 188-189). It actually sued 26 Atwater-Kent dealers simultaneously (34 F. (2d) 50). Despite these suits some large companies, who could afford to defend suits of this magnitude, have refused to take a Hazeltine

patents which it owned outright and which resulted almost entirely from its own research during a period of more than twenty years (R. 80). The remaining patents comprised those under which Hazeltine acquired its rights as partial consideration for the settlement of past infringement liability (R. 255). There is not now and never has been any plurality of control or interest in the licensing program by which Hazeltine makes its patents available to all manufacturers.

These assertions are based entirely on the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth. The first assertion is also wholly untrue while the second assertion is largely untrue and misleading (R. 254). Prior to the filing of the Petition, one Hazeltine patent was held valid and infringed in the case of *Hazeltine* v. *Admiral*, F. Supp. ; 83 U. S. P. Q. 340, a case in which the defendant was represented by Petitioner's counsel.

These assertions are irrelevant, largely untrue and based only on the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth.

license or pay tribute to Hazeltine for many years, going back to 1927 (R. 79; R. 178; R. 249-251).

6. The 10 worthless post-Neutrodyne patents listed in No. 4 are admittedly the best patents Hazeltine owns. It has been able to continue to levy tribute from the radio industry without a single valid patent to warrant royalty payments, only because on each trial Hazeltine has spent more than $100,000, thus keeping each licensee in perpetual fear of a suit of this magnitude directed against it, if it failed to renew its license.

This malicious assertion is irrelevant, untrue and based solely on the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth.

7. Because of the admitted pathetic weakness of its patent position Hazeltine, by its own assertions (Binns, Hazeltine's president, R. 81, (f), in 1937 abandoned any attempt to collect royalties for the use of its patents. Instead, it has provided in its "standard" license contracts since 1937 for the payment of royalties on all sets made by its licensees regardless of patents. (Judge Ford's opinion, R. 299; Hazeltine's motion for summary judgment, R. 76, paragraph (b); license agreement, R. 5, Article IV, Section 1; Binns, R. 81-82(f); Opinion of Court below, R. 319-320.) The royalties demanded in this action on Hazeltine's worthless patents amount to 25% of Automatic Radio's net profits for the years 1946 and 1947 (R. 178).

The change of policy noted was unrelated to the strength or weakness of the Hazeltine patent situation but was solely for the accounting convenience of Hazeltine *and* its licensees and to formalize an existing practice (R. 82). At that time (1937) Petitioner was using *27* of Hazeltine's patented inventions in its licensed radio receivers (Exh. P, R. 103-108). The relation between the royalties in controversy and Petitioner's net profits merely reflects upon Petitioner's business ability, which is outside Respondent's responsibility.

10. In support of its motion for summary judgment, Hazeltine has asserted the use by Automatic Radio of only four of its patents, namely, Wheeler patents Nos. 1,951,685; 2,041,273; 1,958,627, and 2,015,327 (Wheeler, R. 119-168): This is denied by Automatic Radio (R. 195, No. 12, 207-246). The first two have since been invalidated in the *General Motors* case, 72 F. Supp. 138, affirmed at 170 F. (2d) 6; second petition for rehearing denied, 171 F. (2d) 680; certiorari denied 336 U. S. 938.

Hazeltine asserts and has pointed out in detail the use of *ten* (not four) of its patented inventions in Petitioner's radio receivers (R. 50-70). This *use is not denied* by Petitioner, except in its Briefs. The references to the Record do not support the assertion. An infringement action on patents 1,951,685 and 2,041,273 is now pending against *General Electric Company* in the Northern District of Illinois, Eastern Division, Civil Action No. 49C645.

III. The First Question Presented Supporting Brief (pp. 11-13).

The people of America have paid tribute to Hazeltine on tens of millions of radio receivers, under the guise of patent royalties, amounting to millions of dollars. Hazeltine has managed to levy this tribute by multiplying its patents and its licenses until practically the whole industry has been regimented. Through its basic patents it has thus perpetuated its control over the industry long after the basic patents expired, and twenty years after they became obsolete.

These reckless assertions are untrue. Understandably, all of these assertions are without citation of record support.

When the patent is backed by strong finances in the hands of an aggressive, litigious owner, its power is multiplied many fold. When the patent owner pools his patent with others to get under

There is no evidence of record as to whether Petitioner or Respondent is the larger company or more strongly financed; actually both are small companies in terms of present business

his single control the vast number of 570 patents and 200 applications, all relating to a single, technically complex, mass production industry, he is in a position to do exactly what Hazeltine has done here—force that industry to pay tribute without regard to the patents. Every patent may be invalid, no patent may be used, but every set must pay. And it must pay, however poor the patents, because of the cost of litigation, or the disastrous consequences if a single suit should be decided wrong without being able to get a review by this Court, or both.* * *

The contention that Hazeltine's block-booking arrangement is justified by convenience because of the burden involved in attempting to find out if any of its patents is used, seems to us to be ridiculous. Mere size does not give a big corporation any special rights or alter public policy with respect to it.***

standards. Again there is n "pooling" of patents as her implied.

There is no "block booking" involved here (supra, p. 22). There is no evidence that Hazeltine is any "bigger" than Petitioner.